

The reform process and its discontents



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Sheikh Hasina's despotic regime rigged three elections, destroyed every state institution, plundered the economy, committed grave human rights abuses, and ultimately fell after three blood-soaked weeks last monsoon. In his iconic speech at the Shaheed Minar on August 3, 2024, Nahid Islam demanded not only Hasina's resignation but also political reforms to ensure that such a regime never torments us again.

Without absolving the ousted despot of her many crimes, it has long been acknowledged that Bangladesh is in dire need of institutional and constitutional reform. Even during the 1991-2011 era of elected democracy, our highly centralised political system concentrated power in the person, and persona, of the prime minister. In such a system, losing an election could, and often did, endanger not only one's livelihood but also one's life.

This winner-takes-all, zero-sum politics did not necessitate Hasina's depravity, but it made Bangladesh particularly vulnerable to authoritarianism. That is why the Bangladesh Nationalist Party (BNP) had placed institutional and constitutional reforms at the heart of its future agenda.

The BNP's reform programme was founded on two core ideas following a free and fair election in the post-Hasina era: i) a set of independent commissions to examine the failures of our republic and offer recommendations; and ii) government of national unity to implement those reforms.

In addition, the party proposed the establishment of an upper house, executive term limits, and checks on the power of the prime minister.

Hasina's flight from the country in the face of a popular uprising has, of course, altered the sequence of reform. Recognising the urgent public demand, the interim government formed several commissions in October. Headed by respected scholars and veteran activists such as Prof Ali Riaz, Dr Badiul Alam Majumdar, and others, these commissions worked tirelessly, producing volumes spanning several thousand pages in a matter of months.

A National Consensus Commission was formed in February to synthesise recommendations and solicit responses from political parties. Since then, we have seen their reactions. And unfortunately, it remains unclear how the process will move forward. The interim government has complicated matters by linking the reforms to an unnecessary dichotomy of a "minimum or larger package" and election timing between "December 2025 and June 2026." This framing has sown distrust and jeopardised the reform process itself.

Let's unpack this.

Reform proposals can be classified into two categories: those requiring constitutional amendment and those that do not. For the latter, where there is agreement among major parties, the interim government can begin implementation immediately. These include changes relating to the electoral process, the judiciary, and anti-corruption efforts. Fortunately, there is broad consensus on these matters.

Reforms to the election process should, of course, be prioritised. Yet none of these reforms require a longer timeline that would necessitate pushing the election to June. The

claim that a "minimum package" enables a December election, while a "larger package" delays it until June, lacks credibility.

The constitutional reforms, however, are more complex. Here too, there is agreement between parties in principle: term limits for the prime minister, the creation of an upper house, enhanced female representation, and the independence of accountability institutions. But there are disagreements over

key accountability bodies—such as the Election Commission, Anti Corruption Commission, Public Service Commission, and Human Rights Commission—be made through a National Constitution Commission (NCC), which would include strong opposition representation. However, since the NCC would also have a say in key defence appointments, the BNP opposes it, even as it acknowledges the need to depoliticise these institutions.

represented upper house, directly elected female MPs, lifetime limits on the premiership, and opposition input in key appointments—then the current process is clearly inadequate.

Here, history may offer some guidance.

In the aftermath of the horrors of 1975—one-party rule, coups, and massacres—it fell upon Ziaur Rahman to rebuild the republic. He personally engaged a wide spectrum of political and civil society stakeholders to craft and enact a reform package. If Prof Yunus believes that the reform package proposed by Prof Riaz and his team are crucial, then he must lend his personal gravitas to secure a consensus among the parties.

Regrettably, the chief adviser appears more at ease mingling with global elites in Davos than engaging in the necessary give-and-take with local politicians.

There is another historical precedent. In 1991, the victorious BNP faced strong public demand to restore parliamentary democracy. At that time, civil society—comprising intellectuals, journalists, academics, development workers, and entrepreneurs—worked alongside politicians to forge consensus, resulting in the 11th and 12th constitutional amendments.

Today, we face another political impasse. The interim government seems either unwilling or unable to unite the parties around vital reforms. It is, therefore, time for civil society, non-partisan but politically conscious citizens, to step up. Instead of looking solely to the office of the chief adviser for salvation, we must directly engage political parties on key issues like a proportionally elected upper house.

The BNP has historically responded to reformist public pressure. It was born from the post-1975 reform movement. It restored the parliamentary system and codified the caretaker government. Civil society engagement with the BNP on reform, coupled with a demand for an election date, offers a far more effective path forward than the current charade of "minimum/larger package" and the December-to-June election timeline.

One final issue remains unresolved: even if there is agreement on the reforms, how do we ensure the parties actually implement them?



VISUAL: SALMAN SAKIB SHAHRYAR

specifics.

For instance, Prof Riaz's commission proposes a lifetime limit of two terms for the prime minister, while the BNP prefers a cap of two consecutive terms. The commission suggests electing upper house members based on the proportion of votes won in the lower house; the BNP prefers allocation based on seats won in the lower house. On female representation, the BNP proposes that 100 women MPs be selected proportionally by parties, whereas the commission recommends directly electing 100 women MPs.

To guarantee institutional independence, the commission proposes that appointments

Importantly, the BNP has not closed the door to further discussions on any of these issues. Yet the current reform process offers no viable pathway for progressing them.

If we take the chief adviser at his word, that no reform will be imposed on anyone, then, given the BNP's reservations, the logical next step is to hold an election. Parliament is the appropriate forum for debating and negotiating details of term limits, female representation, the upper house, and institutional independence.

If, on the other hand, there is a belief that an in principle, pre-election consensus is essential—on matters like a proportionally

No alternative to financial reforms for IMF loan



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The International Monetary Fund (IMF) mission left Bangladesh last weekend without any decision on the release of the fourth and the fifth tranches of a loan to the country. These two tranches amount to \$1.3 billion under the \$4.7 billion package agreed upon two years ago. The first tranche of the loan, amounting to \$476.2 million, was released in February 2023, the second tranche of \$681 million in December 2023, and the third tranche of \$1.15 billion in June 2024. However, the lender has withheld the release of the fourth and fifth tranches. In fact, as a decision, the mission has neither approved the immediate release of funds, nor has it shut the door completely. So, the whole situation reflects uncertainties.

A few observations about the phenomenon can be pointed. First, the release of the fourth and fifth tranches of the loan was tied to critical reforms under the Extended Credit Facility and the Resilience and Sustainability Facility. The mission indicated that since Bangladesh has yet to meet all the IMF conditions, the disbursements of the two tranches were withheld. It mentioned that the country has made progress on the financial sector, but more is needed. It further pointed out that Bangladesh still has a path forward, but cautioned that time is running out.

Second, the release of an IMF loan is approved when a staff-level agreement is

reached. A staff-level agreement is essential for securing the IMF board approval and release of funds. Without this, Bangladesh is in a limbo. In the meantime, discussions between the IMF and the Bangladesh government will continue to reach a staff-level agreement soon, possibly by the April 2025 World Bank Group IMF spring meetings in Washington. Third, the sticky points in the discussion between the IMF and Bangladesh were exchange rate management, tax reform, subsidy rationalisation, and the banking sector reforms. The government has made progress in these areas, but it has yet to satisfy the IMF requirements.

On the exchange rate policy, the issue is choosing between a managed rate, e.g. a crawling peg and a fully flexible rate. Bangladesh has been following a crawling peg, and for the last two three years, the issue has been on the table. The arguments that are put forward in favour of a fully flexible exchange rate include enhanced export competitiveness, rebuilding foreign exchange reserves, and making the economy more resilient to external shocks. In recent times, Bangladesh's forex reserves have at least been stabilised after they have been on a steady decline for two years. Right now, the difference between informal and the official exchange rates is very small. Therefore, the pressure for a fully flexible exchange rate

would be mounting.

Arguments are also made that with a flexible exchange rate, there will be an accumulation of forex reserves in the short term. On the other hand, a cautious approach to exchange rate policies also hinges on the arguments that a fully flexible exchange rate may fuel the inflation rate, which is already very close to double digit. In the last two-three months, food prices came down a bit with larger supplies of winter vegetables, while there have been steady increases in the non-food inflation. However, very recently, the market has become uncomfortable again as food prices are back on the rise. Surely, taming inflation requires tighter monetary policy, which Bangladesh has been pursuing for some time, but that is not enough. It would also require structural and institutional measures.

The issue of tax reforms has been in macroeconomic discussions for long time. Over the past 10 years, most developing economies have attained a tax-GDP ratio of about 15 percent. However, the ratio hovers around seven to eight percent in Bangladesh. This limits resource mobilisation for public expenditures, including development spendings. Regardless of the IMF conditionalities in this area, Bangladesh has to increase its tax-GDP ratio. Even in the neighbouring countries like India and Nepal, the tax-GDP ratio is 12 percent and 18 percent, respectively. In Bangladesh, about 68 percent of people with taxable income (2018 data) do not pay income tax. What's more, a staggering 87 percent of the country's rich and upper-middle-class citizens are evading taxes (2024 data). Meanwhile, the country relies more on indirect taxes like VATs and excise duties for resource mobilisation.

This has three implications. One, direct taxes can be used as an equalising factor

to reduce inequalities in the economy. Indirect taxes may lead to inequalities, putting more tax burdens on the poor. So, if the instruments of direct taxes are not used, it amounts to not using an effective mechanism for reducing economic and social inequalities. Two, resource mobilisation through indirect taxes may be affected by external shocks and vulnerabilities. Third, the issue of raising income taxes has a political-economy dimension. The richer section of the economy and the vested interest groups would always try to resist income tax. Since the interim government is not a political government, it can go for the necessary tax reforms, tackling the political aspect of it. The need for tax reforms is of paramount importance. Building a more equitable, transparent and streamlined system, which would ensure sustainable revenue growth, reduce widespread tax exemptions, improve compliance, and distinctly separate tax policy from tax administration, is necessary.

In the past, subsidies were used not to help the poor and the marginalised people, who needed them the most, but as favours to certain social groups and vested interest parties and to provide undue support to certain entities. Thus, inefficient industries and public enterprises enjoyed subsidies without any economic rationale. The past government also used food and other subsidies for political purposes, to appease groups so that they remained loyal to it. At the local level, the administration has been using subsidies as political means to control people. The issue of input versus output subsidies needs to be revisited.

There are increasing needs for legal and regulatory reforms in the financial sector, particularly in the banking sector. Yes, there has been a new loan reclassification rule. But it should be remembered that non-

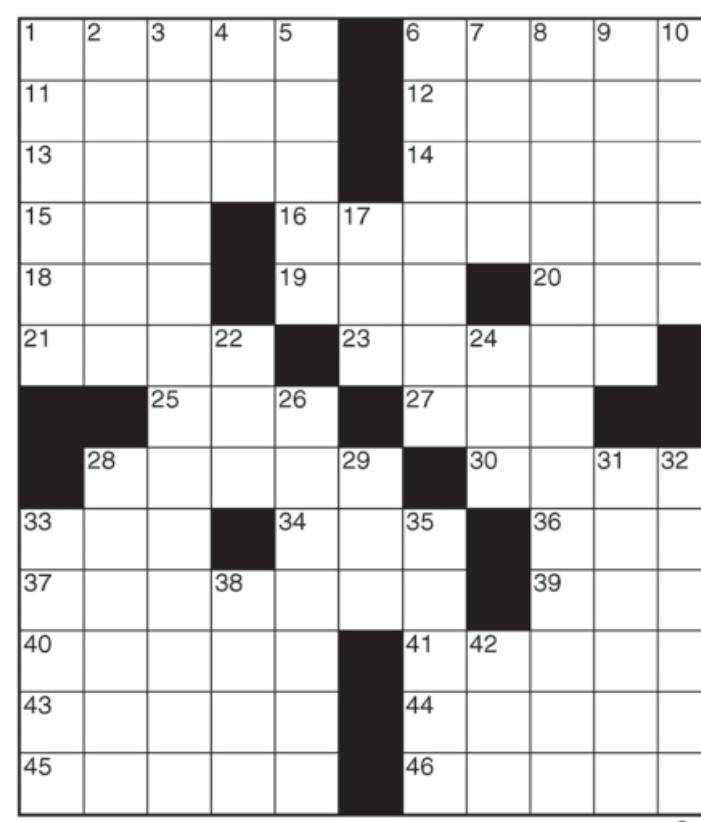
performing loans have not been caused by the reclassification, but by a legacy issue. For maintaining economic stability, well-sequenced reforms are necessary. The legal reforms of the banking sector must conform to global standards. It is necessary to operationalise new frameworks that enable orderly bank restructuring, while protecting the small depositors. The banking sectors' health will be regained and people's confidence in banks and financial institutions will be improved with effective asset quality reviews, better governance, and transparency and accountability. The government has been successful in recovering some of the defaulted loans within the country. The issue now remains with regard to the money laundered abroad. The Bangladesh Bank has been coordinating domestic and international efforts to freeze and confiscate, and recover stolen assets. These efforts must be strengthened and more means must be explored for legal and financial actions to recover those laundered assets.

The issue of financial reforms in Bangladesh cannot be complete without the necessary institutional reforms to enhance the Bangladesh Bank's independence and governance. This is crucial not only for macroeconomic and financial stability, but also for successful execution of the financial reforms. Sustaining the pace of reforms is absolutely necessary to tackle Bangladesh's economic challenges. The IMF loan is quite important for Bangladesh. Apart from providing resources, disbursement of future tranches of such loans would represent a sign of financial credibility of the country, because such disbursements would encourage other global financial organisations to provide loans and would reassure foreign investors to invest in Bangladesh.

CROSSWORD

BY THOMAS JOSEPH

ACROSS	30	Pesters	5	Instruct		
1	Egypt's Anwar	33	Bikini top	6	Check the addition	
6	Showed over	34	Saloon vessel	7	Strays	
11	Like Poe tales	36	Lopped down	8	Complaining noisily	
12	Make blank	37	Pull off	9	Facet	
13	Fragrance	39	Give it a go	10	High maintenance	
14	Rubbish	40	Subway support	11	Drake's music	
15	Tiny taste	41	Ordeal	12	Nearest star	
16	Intersected	43	Bert's buddy	13	Hint of color	
18	Upper limit	44	Shows fondness	14	Physics particle	
19	Bowler, e.g.	45	Like oxen	15	Formidable rivals	
20	Far from cordial	46	Repair site	16	Jockey Eddie	
21	Yale students	DOWN	32	Minivan alternative	17	Drake's music
23	Palette stuff	1	Did salon work	18	Nearest star	
25	Sister, of sorts	2	Disrobed	19	Hint of color	
27	Record book	3	Noted oil tycoon	20	Physics particle	
28	Patron saint of young girls	4	Subtly suggesting	21	Formidable rivals	
			42	Carnival city	22	Jockey Eddie
				23	Minivan alternative	
				24	Repair site	
				25	Did salon work	
				26	Disrobed	
				27	Noted oil tycoon	
				28	Subtly suggesting	
				29	Carnival city	
				30	Formidable rivals	
				31	Jockey Eddie	
				32	Minivan alternative	
				33	Did salon work	
				34	Disrobed	
				35	Noted oil tycoon	
				36	Subtly suggesting	
				37	Carnival city	
				38	Formidable rivals	
				39	Jockey Eddie	
				40	Did salon work	
				41	Disrobed	
				42	Noted oil tycoon	
				43	Subtly suggesting	
				44	Carnival city	
				45	Did salon work	
				46	Disrobed	



SATURDAY'S ANSWERS

A	L	A	S		L	A	B	E	L
S	I	L	T		S	A	L	U	T
I	D	E	A		P	R	I	N	C
F	O	X	G		L	O	V	E	
A	T	B	E		G	E	R	A	N
T	I	E	R		R	A	N	I	U
O	N	E			S	I	N	G	S
M	A	R	I		L	E			